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EDITORIAL

Inflation as consequence of flawed policies

Prime Minister Imran Khan, while chairing the parliamentary committee meeting on Thursday 7 November, including parliamentarians of allied parties, restated “stand by me on the inflation issue, I am monitoring it;” and proceeded to blame hoarders, read profiteers, creating artificial shortages to shore up prices. There is ample evidence that in Pakistan profiteers abound and administration after administration has undertaken measures to check this illegal activity to the extent possible through empowered price committees that mainly focus on Sunday bazaars. These committees have little authority on the prevalent prices in privately-owned shops, a fact that prompted the establishment of Utility Stores Corporation (USC) that sell items of daily use at reasonable prices, though there are instances, particularly with reference to staple items, that are subsidised which, of course, cannot be matched by private shop owners.

Be that as it may, like other state-operated entities, USC is inefficiently run with the staff routinely engaging in corruption by selling products at higher prices to ineligible sectors, as happened in the sale of sugar to hotels and sweet shops. More recently during a standing committee meeting, the Ministry of Industries requested that the Benazir Income Support Programme (BISP) beneficiaries be issued food stamps that would be en-cashable in the USC stores to prop up yet another poorly performing state-owned entity – a request rightly denied by Dr Sania Nishtar, BISP Chairperson.

However, what is baffling is that the Prime Minister clearly appears to be unaware of the impact of various elements of the agreement that his economic team leaders signed with the International Monetary Fund (IMF) on domestic inflation. The range of policy decisions that are fuelling inflation are: (i) the continued reliance on indirect taxes to generate the unrealistic revenue target of 5.5 trillion rupees for the current year. Sales tax, particularly on oil and products (a major source of government revenue for decades) accounts for higher transport costs which implies a commensurate rise in the price of perishables; withholding tax accounting for over 70 percent of all taxes collected as direct taxes is in the sales tax mode and therefore wrongly credited under the head of direct taxes; be that as it may, the revenue shortfall during the first quarter of this year is 164 billion rupees; (ii) the rupee continues to be undervalued, courtesy State Bank of Pakistan’s implementation of market-based exchange rate, which has raised the cost of not only oil imports but also raw materials and semi-finished products which, in turn, has throttled large-scale manufacturing sector giving a negative 7 percent growth rate; (iii) a prohibitively high discount rate of 13.25 percent which is further dampening output as the cost of working capital has raised input; (iv) the rise in utility rates, due to gross inefficiencies of utility companies particularly with reference to the circular debt in the energy sector continuing to rise in total terms. Pharmaceutical companies, for instance, are legitimately arguing that with a massive rise in input costs they can no longer supply medicines at the same costs, therefore the government should either increase the prices of their products or else they will cease production; (v) cessation of trade with

India accounts for prices of some perishable items sky rocketing; (vi) the budget deficit for the last fiscal year was estimated at a historical high of 8.9 percent, and in the first quarter of the current fiscal year the government is maintaining that the deficit has declined by 50 percent. However, it must be kept in mind that in June the government projected a deficit of 7.2 percent (three weeks before the end of the year) and its projection was inaccurate by a whopping 1.7 percentage points. It would be advisable to reserve judgment on government claims especially as the projections for last year were so off, which would have obvious impact on the current year's macroeconomic projections; and (vii) even though the senior civilian and military officials did not get a pay raise commensurate with the rate of inflation, yet the lower echelons did – a raise that was not extended by the private sector, in urban and rural areas, due to lower productivity and higher input costs. This is reflected by over 400 billion decline in deposits as people's savings are being eroded.

The Prime Minister would therefore be well advised to acknowledge his administration's fiscal and monetary policies' impact on fuelling inflation and that by focusing only on profiteers is not going to make too much of a difference. No doubt his team leaders are telling him that because of their contractionary policies aggregate demand is down with a consequent negative impact on inflation but then they also need to focus on the negative impact of their policies on output, employment and last but not least on prices.